

AMENDED IN ASSEMBLY AUGUST 18, 2011

AMENDED IN ASSEMBLY JUNE 21, 2011

AMENDED IN SENATE MAY 5, 2011

SENATE BILL

No. 506

Introduced by Senator Simitian

(Principal coauthor: Assembly Member Campos)

(Coauthor: Senator Anderson)

February 17, 2011

An act to amend Section 17275 of, and to ~~repeal and add Sections 17280.1 and 17280.2 of~~ *add Section 17280.3 to*, the Government Code, relating to state finance.

LEGISLATIVE COUNSEL'S DIGEST

SB 506, as amended, Simitian. State finance: warrants.

Existing law authorizes a taxpayer who has a tax liability with respect to personal income taxes or bank and corporation taxes, and who is a payee named in a registered warrant to pay the tax liability with the registered warrant, as specified.

~~This bill would revise and recast these and applicable provisions. The bill would also provide a procedure whereby a registered warrant may be issued for the payment of principal or interest due on a state bond, as specified, and authorize the Controller to promulgate regulations to facilitate this use of a registered warrant.~~

This bill would provide that if a registered warrant is issued for the payment of principal or interest due on a state bond, then the beneficial owner of that state bond may offset the principal amount of the registered warrant that is attributable to that beneficial owner's

beneficial interest in the state bond against an existing tax liability, subject to certain requirements and procedures.

Vote: majority. Appropriation: no. Fiscal committee: yes.

State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 17275 of the Government Code is
2 amended to read:

3 17275. Any interest paid on any registered warrant shall accrue
4 to the person holding the warrant on the date of redemption, except
5 a registered reimbursement warrant may provide otherwise. A
6 registered warrant ceases to bear interest on the first of the
7 following dates:

8 (a) The maturity date indorsed on its face, if any, if on that date
9 unapplied money or the proceeds of refunding warrants are
10 available for its payment.

11 (b) The date of redemption, so long as the date is at least three
12 days following the first day of published notice pursuant to Section
13 17273.

14 (c) ~~The date a check is submitted in payment of a tax liability~~
15 ~~registered warrant is used by a taxpayer, specified in subdivision~~
16 ~~(b) pursuant to Section 17280.1, or by a beneficial owner of a state~~
17 ~~bond, as specified in subdivision (e), of Section 17280.1 pursuant~~
18 ~~to Section 17280.3, to offset a tax liability of the taxpayer or~~
19 ~~beneficial owner.~~

20 SEC. 2. ~~Section 17280.1 of the Government Code is repealed.~~

21 SEC. 3. ~~Section 17280.1 is added to the Government Code, to~~
22 ~~read:~~

23 ~~17280.1. (a) A taxpayer who has a tax liability, including, but~~
24 ~~not limited to, any liability for periodic estimated tax payments,~~
25 ~~with respect to personal income taxes or bank and corporation~~
26 ~~taxes, and who is a payee named in a registered warrant, as defined~~
27 ~~in Section 17221, that is received in payment of an obligation of~~
28 ~~the state to the taxpayer, may pay that tax liability, in whole or in~~
29 ~~part, by submitting to the appropriate state agency responsible for~~
30 ~~collection of that tax, a check in an amount not to exceed the~~
31 ~~principal amount of the registered warrant, exclusive of any interest~~
32 ~~thereon, together with a copy of the registered warrant that clearly~~
33 ~~discloses the name of the taxpayer as payee, the amount to be paid,~~

1 the number of the warrant, and the completed, signed, and dated
2 endorsement on the reverse side of the registered warrant, as
3 described in subdivision (d). Upon submitting the check and a
4 copy of the registered warrant, the taxpayer may not thereafter
5 assign or transfer that registered warrant, except to a bank or
6 financial institution. The taxpayer's check, if submitted in
7 conformance with all the requirements in this subdivision, shall
8 not be presented for payment by the state until the registered
9 warrant payable to the taxpayer is payable upon its presentation
10 to the Treasurer.

11 (b) Any taxpayer who submits a check for the payment of taxes
12 pursuant to subdivision (a) shall not be entitled to receive any
13 interest accruing on the registered warrant after the date the
14 taxpayer submitted the check, as the date is certified in the
15 endorsement on the registered warrant described in subdivision
16 (d). This subdivision shall apply even if the principal amount of
17 the registered warrant exceeds the amount of the check submitted
18 for payment of taxes.

19 (c) If a taxpayer submits a check for the payment of taxes
20 pursuant to subdivision (a) and presents the registered warrant to
21 a bank or other financial institution for payment, the taxpayer shall
22 make a declaration upon presentment that he or she is ineligible
23 to receive interest accruing on the registered warrant after the date
24 he or she submitted the check, as that date is certified in the
25 endorsement on the registered warrant described in subdivision
26 (d).

27 (d) All registered warrants, as defined in Section 17221, shall
28 include the following information on the reverse side in
29 substantially the following form:

30 —
31 “In endorsing this warrant, I declare that I have () or have not
32 () (check one) submitted a check on _____ (date) for the payment
33 of tax liability in an amount not to exceed the amount of this
34 warrant. I further declare that by submitting that check, I am
35 ineligible for the receipt of interest on this warrant after the above
36 date.”

37 —
38 (e) If a registered warrant, as defined in Section 17221, is issued
39 for payment of any principal or interest due and payable on a state
40 bond that is held in book entry form by a securities settlement

1 system, the beneficial owner of the state bond is deemed
2 exclusively to be the taxpayer who is permitted to submit a check
3 in payment of an existing tax liability, as defined in subdivision
4 (a), notwithstanding that the securities settlement system, or its
5 nominee, is the registered owner of the state bond or the named
6 payee of the registered warrant. The beneficial owner may submit
7 a check to the state agency responsible for the collection of the tax
8 in payment of a tax liability, as defined in subdivision (a), but the
9 check shall not exceed the portion of the principal amount of the
10 registered warrant, exclusive of interest thereon, that is attributable
11 to the taxpayer's beneficial ownership of the state bond. The check
12 shall be accompanied by evidence of ownership of the state bond
13 and other information as shall be prescribed by the Controller
14 pursuant to subdivision (f). The beneficial owner's check, if
15 submitted in conformance with all the requirements in this
16 subdivision and as prescribed by the Controller pursuant to
17 subdivision (f), shall not be presented for payment by the state
18 until the registered warrant is payable upon its presentation to the
19 Treasurer. Any beneficial owner who submits a check as set forth
20 in this subdivision in payment of an existing tax liability shall not
21 be entitled to receive payment of any interest accruing on the
22 registered warrant after the date on which the beneficial owner
23 submits the check to the state, and the beneficial owner shall be
24 required to promptly repay to the state any interest accruing on
25 the registered warrant after the date of submission that may be
26 paid to or ultimately received by the beneficial owner, if any. The
27 preceding sentence shall apply even if the portion of the principal
28 amount of the registered warrant that is attributable to the beneficial
29 owner's ownership interest in the state bond is larger than the
30 amount of the check the beneficial owner submitted for payment
31 of taxes. Upon submitting such a check to the state in payment of
32 a tax liability pursuant to this subdivision, the beneficial owner
33 shall not be permitted to sell, transfer, or assign its beneficial
34 ownership of the state bond until the registered warrant has been
35 redeemed by the state and the beneficial owner has repaid any
36 interest received on its portion of that registered warrant
37 attributable to the period after submission of a check to the state
38 as provided in this subdivision. For purposes of this subdivision
39 and subdivision (f), "state bond" means any general obligation
40 bond or revenue anticipation note issued by the state.

1 ~~(f) The Controller is authorized to promulgate regulations to~~
2 ~~implement subdivision (e), including, but not limited to, all of the~~
3 ~~following procedures:~~

4 ~~(1) Specifying the information that the beneficial owner must~~
5 ~~submit to the state with the check that is in payment of the~~
6 ~~beneficial owner's tax liability, evidencing the beneficial owner's~~
7 ~~ownership of the state bond, the amount of principal or interest~~
8 ~~due and payable to the beneficial owner on the state bond, and the~~
9 ~~issuance of a registered warrant in payment of that principal or~~
10 ~~interest.~~

11 ~~(2) Requiring the beneficial owner to acknowledge in writing~~
12 ~~that the beneficial owner is not entitled to, and must return, any~~
13 ~~interest that accrues upon the registered warrant after the date the~~
14 ~~beneficial owner's check is submitted to the state, if any interest~~
15 ~~is paid to, or ultimately received by, the beneficial owner.~~

16 ~~(3) Requiring the beneficial owner to acknowledge, in writing,~~
17 ~~that the beneficial owner may not sell, transfer, or assign its interest~~
18 ~~in the state bonds until after the registered warrant for the principal~~
19 ~~or interest on the state bonds has been redeemed by the state and~~
20 ~~the beneficial owner has repaid any interest on the registered~~
21 ~~warrant for the period after submission of the check to the state~~
22 ~~for a tax liability that is paid to, or received by, the beneficial~~
23 ~~owner.~~

24 ~~(4) Specifying the procedure for repayment by the beneficial~~
25 ~~owner to the state of any interest on the registered warrant,~~
26 ~~including, but not limited to, provisions for notice to the beneficial~~
27 ~~owner of amounts due and deadlines for repayment, methods of~~
28 ~~collection of unpaid amounts, and penalties for failure to repay.~~

29 ~~SEC. 4. Section 17280.2 of the Government Code is repealed.~~

30 ~~SEC. 5. Section 17280.2 is added to the Government Code, to~~
31 ~~read:~~

32 ~~17280.2. (a) A taxpayer with a tax liability, as set forth in~~
33 ~~subdivision (a) of Section 17280.1, and who is a payee named in~~
34 ~~a registered warrant, as defined in Section 17221, that is currently~~
35 ~~redeemable by the state upon presentation, may use the registered~~
36 ~~warrant to pay the tax liability, in whole or in part, by endorsing~~
37 ~~the registered warrant and delivering it to the appropriate state~~
38 ~~agency responsible for collection of the tax, and the principal~~
39 ~~amount of, and any interest accruing on, the registered warrant~~

1 that is payable to the taxpayer as specified in this article, shall be
2 credited to the taxpayer's account in payment of the tax liability.

3 ~~(b) No state entity shall take any action that would materially~~
4 ~~adversely impair, limit, or restrict the rights of a beneficial owner~~
5 ~~of a state bond, as set forth in Section 17280.1, or any successor~~
6 ~~provision, as that provision was in effect when the person or party~~
7 ~~became a beneficial owner of the state bond, until the state bond~~
8 ~~is fully paid and discharged.~~

9 SEC. 2. Section 17280.3 is added to the Government Code, to
10 read:

11 17280.3. (a) If a registered warrant, as defined in Section
12 17221, is issued for payment of any principal or interest due and
13 payable on a state bond that is held in book entry form by a
14 securities settlement system, the beneficial owner of the state bond
15 may offset the portion of the principal amount of the registered
16 warrant (exclusive of interest thereon) that is attributable to that
17 beneficial owner's beneficial interest in the state bond against an
18 existing tax liability, as defined in subdivision (a) of Section
19 17280.1, of that beneficial owner, in accordance with the
20 provisions of Sections 17280.1 and 17280.2, or otherwise in
21 accordance with procedures established by the Controller pursuant
22 to subdivision (b), notwithstanding that the securities settlement
23 system, or its nominee, is the registered owner of the state bond
24 or the named payee of the registered warrant. The amount of that
25 beneficial owner's tax liability that may be offset pursuant to this
26 section shall not exceed the portion of the principal amount of the
27 registered warrant, exclusive of interest thereon, that is attributable
28 to the taxpayer's beneficial ownership of the state bond. Any
29 beneficial owner who exercises the offset right set forth in this
30 section in payment of an existing tax liability shall not be entitled
31 to receive payment of any interest accruing on the portion of the
32 registered warrant attributable to that beneficial owner's beneficial
33 interest in the state bond after the date on which the beneficial
34 owner exercises the offset right in accordance with the applicable
35 procedures, and the beneficial owner shall be required to promptly
36 repay to the state any interest accruing on the registered warrant
37 after that date that may be paid to or ultimately received by the
38 beneficial owner, if any. The preceding sentence shall apply even
39 if the portion of the principal amount of the registered warrant
40 that is attributable to the beneficial owner's ownership interest in

1 *the state bond is larger than the amount of the tax liability offset*
2 *by the beneficial owner with that registered warrant. Upon*
3 *exercising the right of offset pursuant to this subdivision, the*
4 *beneficial owner shall not be permitted to sell, transfer, or assign*
5 *his or her beneficial ownership of the applicable state bond until*
6 *the applicable registered warrant has been redeemed by the state*
7 *and the beneficial owner has repaid any interest received on his*
8 *or her portion of that registered warrant attributable to the period*
9 *after that beneficial owner's exercise of the right of offset as*
10 *provided in this subdivision. For purposes of this subdivision and*
11 *subdivision (b), "state bond" means any general obligation bond*
12 *or revenue anticipation note issued by the state.*

13 *(b) No state entity shall take any action that would materially*
14 *adversely impair, limit, or restrict the rights of a beneficial owner*
15 *of a state bond, as set forth in this section, Section 17280.1, or*
16 *Section 17280.2, or any successor provisions, as those provisions*
17 *were in effect when the person or party became a beneficial owner*
18 *of the state bond, until the state bond is fully paid and discharged.*